

Hold (old: Buy) Target: Euro 29.00 (unchanged)

7 | August | 2020

■ Price (Euro)	28.50			
52 weeks range	33.25 / 16.52			
■ Key Data				
Segment	Open Market (Frankfurt)			
ISIN	DE000A2YPDD0			
Sec. ID-No.	245751			
Symbol	VIH			
Reuters	VIHG.DE			
Bloomberg	VIH GR			
Internet	www.vib-ag.de			
Reporting Standard	IFRS			
Fiscal Year	31/12			
IPO	28 Nov. 2005			
Market Cap (EUR million)	786.0			
Number of shares (million)	27.6			
Free Float	82.4%			
Free Float MCap (million)	647.7			
CAGR net profits '19 - '22e	0.2%			
■ Multiples	2019	2020e	2021e	2022e
MarketCap/ Sales	8.6	8.3	8.0	7.6
PE-Ratio	12.4	13.7	12.3	12.2
Dynamic PE-Ratio	52.34	57.71	51.68	51.32
Dividend Yield	2.5%	2.5%	2.6%	2.7%
FFO Yield	6.2%	6.4%	6.6%	6.8%
■ Key Data per Share (Euro)	2019	2020e	2021e	2022e
Earnings per Share (EPS)	2.29	2.08	2.32	2.34
Dividends per Share (DPS)	0.70	0.72	0.75	0.78
Book Value per Share (BVPS)	19.31	20.67	22.24	23.80
NAV per share (diluted)	22.23	23.45	24.74	50.85
FFO per share	1.77	1.82	1.87	1.94
■ Financial Data (Euro '000)	2019	2020e	2021e	2022e
Revenues	90,995	95,033	98,834	103,776
Total operating revenue	92,640	95,560	99,388	104,619
EBITDA	93,266	85,327	93,720	94,014
Operating Profit (EBIT)	92,953	84,977	93,340	93,629
Pre-tax profit (EBT)	78,287	70,249	78,307	78,708
Net profit (after minorities)	63,159	57,279	63,973	64,420
Adjusted Shareholders' Equity	532,683	570,104	613,393	656,300
RoE after tax	12.4%	10.4%	10.8%	10.1%
■ Financial Calendar				
9M 2020 report		11 November 2020		
■ Main Shareholders				
Kreissparkasse Biberach	7.3%			
VR Bank Neuburg-Rain eG	4.1%			
Family Office, Munich	3.7%			
Supervisory board + Management	2.5%			
■ Analysts	Dipl.-Kfm. Stefan Scharff, CREA Christopher Mehl, MBA			
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1H numbers on track of firm's guidance and our estimates with a plus of 4% in FFO and +16% in the bottom line - Euro 29.00 target price affirmed, rating down to Hold as share has surged

Today, the company released the report for the first half of 2020 and presented a continued growth in the numbers despite the difficult Corona environment. Revenues were up about 3% from Euro 45.1m to Euro 46.4m, driven by new additions to the portfolio and rental indexing. Keep in mind, that rental waivers of Euro 330k, which were granted by VIB to companies particularly impacted by the pandemic, are already accounted for in that number. The revaluation result amounted to Euro 5.9m (1H 2019: Euro 2.3m) reflecting the resilience of the logistics sector but also the firm's strategic approach of lucrative own developments, as these uplifts resulted mainly from construction projects currently ongoing or already completed. Even though net debt increased due to new funding, interest expenses once again came down and declined by more than 4% compared to last year as the average borrowing rate was further reduced to now 2.04%. Pre-tax profit hiked by almost 16% from Euro 30.0m to Euro 34.6m. Adjusted for the revaluation result, the hike in EBT was still at almost 4%, from Euro 27.7m to Euro 28.7m. The bottom line after minorities came in at Euro 28.1m, up more than 16% from last year's Euro 24.2m. Thus, earnings per share increased from Euro 0.88 to Euro 1.02. The FFO of the first six months increased by more than 4% from Euro 24.1m to Euro 25.1m or from 87 cent to 91 cent per share. The EPRA NAV per share increased to Euro 23.34, up 5% since year-end 2019. The LTV came down slightly from 51% to 50.6%, while the equity ratio slightly improved from 42.5% to 43.3% over the same time period.

Looking at the portfolio, the in April announced development for Amazon in Gersthofen was already completed at the start of July, four weeks ahead of schedule, and will thus contribute to the earnings for almost six months in 2020. Furthermore, construction on the largest development project of the firm is proceeding well and is on schedule to be completed in the fourth quarter. The portfolio at 1H comprises 112 objects with a rentable space of almost 1.2m sqm. The market value of the portfolio as of 1H amounts to almost Euro 1.34bn. The vacancy rate is at 2.7% and the WALT is at 5.6 years at a very comfortable level.

The numbers of the first half were good and in line with the firm's guidance, which was also reaffirmed, as well as with our expectations. The completion of the development in Gersthofen will give the numbers another boost for the second half of the year. Thus, we confirm our Euro 29.00 target price. As the share has recovered the corona losses with a surge of about 17% since our last update and has closed in on our target price, we reduce our rating from Buy to Hold.

VIB Vermögen AG

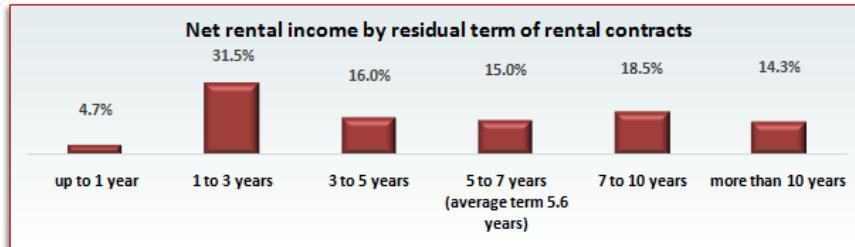
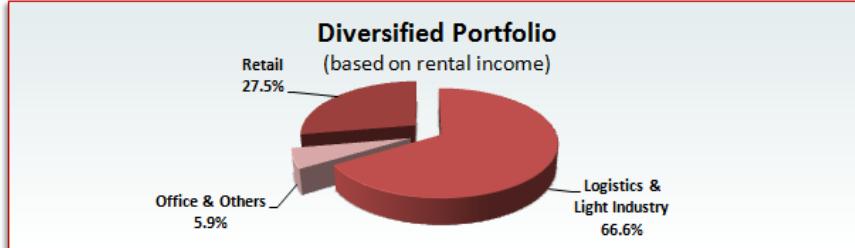
Industry:	Real Estate
Sub-segment	Logistics, Light Industry, Retail
Region:	Germany
Headquarter:	Neuburg
Foundation	1993
Employees:	45
IR Contact:	Petra Riechert (petra.riechert@vib-ag.de)

Management Board of VIB Vermögen AG:
Martin Pfandzelter (CEO)
Holger Pilgenröther (CFO)
Supervisory Board of VIB Vermögen AG:
Ludwig Schlosser (Chairman)
Jürgen Wittmann (Deputy Chairman)
Franz-Xaver Schmidbauer
Rolf Klug

VIB Vermögen AG acquires and manages commercial real estate properties. Additionally, the company develops real estate properties for its own portfolio and furthermore it indirectly holds real estate assets via company holdings. The properties are located across Germany with a major focus on Southern Germany.

The company aims at a "Develop-or-Buy-and-hold" strategy and holds a diversified portfolio comprising 112 properties with a total lettable area of almost 1,200,000 sqm and a portfolio value of about Euro 1.34bn at 1H 2020. The company convinces by its favorable and sustainable occupancy rate of 97.3% and its lean cost and financing structures. In addition, the real estate portfolio offers a broad diversification within the commercial segment. Logistics and light industry (67%), retail (27%), office utilization (3%) and commercial building/others (3%) are covered.

The average maturity of rental contracts amounts to c. 5.6 years. Among tenants are various well-known and successful brands like Geis Industrie, Loxxess, Dehner Gartenfachmärkte, Edeka, Media Markt, Continental, Aldi, Kaufland etc. that have a high degree of creditworthiness. The average gross rental yield as of 1H 2020 is at 6.92%. The logistics and industrial properties and the office properties offer a slightly higher yield, while retail is little below that average. In autumn 2015, the company completed a logistics centre which is its largest in-house development so far. It is located in the Interpark Kösching near Ingolstadt, comprises 55,000 sqm of lettable space and is fully leased up at an initial gross rental yield of 9.5%. Currently, one project is under construction, which is to be completed in 2020. The project is the second construction phase of a two-storey flagship project at Interpark, which after the expected completion at the end of 2020 will be the firm's largest logistics facility in the portfolio with a rentable area of about 115,000 sqm. Furthermore, the site pipeline for future projects amounts to 170,000 sqm as of 1H 2020.



The company has a high equity ratio of 43.3% and also a healthy LTV ratio of 50.6% at 1H 2020. Concerning the shareholder structure the firm has a free float of 82.4%. The crucial investment criteria for property acquisitions is a mid-to long-term rental contract with a solvent tenant and an initial rental yield of more than 7%. Furthermore, the location needs to be within an economically attractive region, as it was realized again with the recent deals.

VIB Vermögen AG is listed at the Open Market of the Frankfurt Stock Exchange and at M:access of the Munich Stock Exchange since November 2005. The company will propose a dividend of 70 cents for 2019 at the upcoming AGM in July. For the current fiscal year 2020, the company gave a guidance for revenues between Euro 91.0m and Euro 97.0m, the EBT is guided in a range between Euro 55.0m and Euro 59.0m, and the FFO between Euro 48.0m to Euro 52.0m.

Source: Company Data, SRC Research

SWOT Analysis

Strengths

- ▶ VIB has a total of 112 commercials with a rental area of almost 1,200,000 sqm. The properties are mainly located in the economically strong Southern Germany, resulting in a very stable cash income. In 2019, the FFO surged by 8% to almost Euro 49m and is guided to a range of Euro 48m to Euro 52m in 2020.
- ▶ The strategy is clearly long-term-oriented with a Buy-and-Hold or Build-and-Hold strategy. In time of low yields it is more oriented on own developments to grow. The tenant structure divided out in the Top 10 tenants standing for about 45% of the rental income.
- ▶ A very low EPRA vacancy rate of about 2.7% at present. In addition, the portfolio is widely spread over various sectors and therefore less affected by an economic shortfall. The average rental yield is at high 6.92% at FY 2019 and the firm's LTV ratio stands at healthy 50.6%.
- ▶ VIB's successful approach and sound track record of further expanding the portfolio size by carefully analyzing given investment opportunities, either existing properties to buy or land sites for in-house developments.
- ▶ In-depth and careful planning of in-house development as exemplified by the recent logistics development in the Interpark commercial centre, which has been completed within the time as scheduled and fully leased up already much time in advance of scheduled date of completion.
- ▶ Predictability of future earnings is high due to long-term rental agreements for the majority of portfolio (~ 48% with long-term rental contracts at 1H 2020).
- ▶ The average duration of rental agreements amounts to 5.6 years at 1H 2020. Furthermore, tenants have a high degree of creditworthiness (Rudolph Group, Geis Industrie, Audi, BayWa, Dehner Gartenfachmärkte).
- ▶ The firm successfully placed three mandatory convertible bonds at 4.5% / 4.0% interest with institutional investors, a Euro 17m issue in Dec. 2012 and a Euro 26m issue in November 2013, and Euro 33m in Dec. 2014.

Weaknesses

- ▶ Demand for attractive logistics and retail properties has significantly increased, also due to the low interest environment. Acquiring properties at yields of more than 7.0% is becoming increasingly difficult but the last news underlined the company's ability to buy or develop the "right" assets.

Opportunities

- ▶ VIB consequently reengineers its financing by fixing the currently favorable interest-rate level by medium-term forward agreements. The current average interest rate came down to 2.04%, after 2.55% in 2017 and 2.33% at FY 2018 and should further decline in the current FY 2020.
- ▶ The firm placed a Euro 42.5m promissory note in April 2019 at a very low rate of 1.03%. The Euro 70m bonded loan issued in Sept. 2016 with an interest of only 1.27% (10 years) and even 0.7% (7 years) is another highlight of the debt side.
- ▶ In the face of growing challenges with regard to acquiring high quality German real estate at attractive prices, VIB can largely benefit from its in-house development operations in order to further strengthen its portfolio in terms of size and quality, for example the two new Kösching developments in 2017.

Threats

- ▶ In case of a sustained recession, portfolio vacancy rate might not remain at the negligibly low level of 2.7% and estimated rental values with prospective tenants potentially will be agreed at lower levels. A subsequent negative impact on the portfolio, leading to valuation losses, would burden the P&L.

**P&L Account for VIB Vermögen AG**

	2016	2017	2018	2019	2020e	2021e	2022e	CAGR '19 - '22e
VIB Vermögen AG 31/12 IFRS (Euro '000)								
Revenues	79,549	83,550	86,789	90,995	95,033	98,834	103,776	4.5%
Net Result from Revaluations	18,018	17,380	19,454	22,319	12,369	17,854	13,547	
Other operating income	350	344	1,443	1,645	527	554	843	
Total operating income	97,917	101,274	107,686	114,959	107,929	117,242	118,166	
Expenses for investment properties	-13,292	-13,775	-14,968	-16,057	-16,539	-17,035	-17,546	
<i>Gross margin without revaluation</i>	83.3%	83.5%	82.8%	82.4%	82.6%	82.8%	83.1%	
Net operating income (NOI)	66,257	69,775	71,821	74,938	78,494	81,799	86,230	4.8%
<i>NOI-margin</i>	83.3%	83.5%	82.8%	82.4%	82.6%	82.8%	83.1%	
Personnel expenses	-3,797	-3,621	-3,678	-3,861	-4,012	-4,040	-4,095	
Other operating expenses	-1,647	-1,785	-1,780	-1,775	-2,051	-2,447	-2,511	
EBITDA	79,181	82,093	87,260	93,266	85,327	93,720	94,014	
<i>EBITDA-margin</i>	99.5%	98.3%	100.5%	102.5%	89.8%	94.8%	90.6%	
EBITDA without revaluation	61,163	64,713	67,806	70,947	72,958	75,866	80,467	4.3%
Amortization of intangible assets and depreciation of property, plant and equipment and investment properties	-62	-271	-308	-313	-350	-380	-385	
Operating profit (EBIT)	79,119	81,822	86,952	92,953	84,977	93,340	93,629	
<i>EBIT-margin</i>	99.5%	97.9%	100.2%	102.2%	89.4%	94.4%	90.2%	
Operating profit (EBIT) without revaluation	61,101	64,442	67,498	70,634	72,608	75,486	80,082	4.3%
Net income from investments accounted for using the equity method	210	152	3	125	108	91	78	
Income from participating interests	0	0	0	0	0	0	0	
Income/Expenses from measurement of financial derivatives	0	0	0	0	0	0	0	
Interest earnings	0	23	8	343	14	16	22	
Interest costs	-20,509	-17,378	-15,597	-14,968	-14,684	-14,974	-14,855	
Financial result	-20,509	-17,355	-15,589	-14,625	-14,670	-14,958	-14,833	
Expenses from guaranteed dividend	0	-166	-166	-166	-166	-166	-166	
Pre-tax Profit (EBT)	58,820	64,453	71,200	78,287	70,249	78,307	78,708	
<i>EBT-margin</i>	73.9%	77.1%	82.0%	86.0%	73.9%	79.2%	75.8%	
Pre-tax Profit (EBT) without revaluation	40,802	47,073	51,746	55,968	57,880	60,453	65,161	5.2%
Tax expenses	-9,417	-10,515	-11,305	-12,876	-11,451	-12,764	-12,829	
<i>Tax rate</i>	16.0%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	
Net Profit before minorities	49,403	53,938	59,895	65,411	58,799	65,543	65,879	0.2%
Minorities	-2,140	-2,334	-2,285	-2,252	-1,520	-1,570	-1,459	
Net Profit after minorities	47,263	51,604	57,610	63,159	57,279	63,973	64,420	0.7%
<i>Return on sales</i>	59.4%	61.8%	66.4%	69.4%	60.3%	64.7%	62.1%	
Number of shares	27,580	27,580	27,580	27,580	27,580	27,580	27,580	
Earnings per share (Euro)	1.71	1.87	2.09	2.29	2.08	2.32	2.34	
Dividends per Share (DPS) in Euro	0.55	0.60	0.65	0.70	0.72	0.75	0.78	
BookValue per Share (BVPS) in Euro	14.82	16.15	17.65	19.31	20.67	22.24	23.80	
Adjusted Shareholders Equity' without minorities and after dividend payment	408,678	445,486	486,866	532,683	570,104	613,393	656,300	7.2%
RoE after Tax	12.1%	12.1%	12.4%	12.4%	10.4%	10.8%	10.1%	
Key ratios & figures	2016e	2017	2018	2019	2020e	2021e	2022e	
Margins in %								
EBITDA	76.9%	77.5%	78.1%	78.0%	76.8%	76.8%	77.5%	
EBIT	76.8%	77.1%	77.8%	77.6%	76.4%	76.4%	77.2%	
EBT	51.3%	56.3%	59.6%	61.5%	60.9%	61.2%	62.8%	
Expense ratios in %								
Personnel costs quota	4.8%	4.3%	4.2%	4.2%	4.2%	4.1%	3.9%	
Depreciation to sales	0.1%	0.3%	0.4%	0.3%	0.4%	0.4%	0.4%	
Tax rate	16.0%	16.3%	16.3%	16.3%	16.3%	16.3%	16.3%	
Profitability in %								
Net profit to sales ratio	59.4%	61.8%	66.4%	69.4%	60.3%	64.7%	62.1%	
Return on equity (RoE) after tax	12.1%	12.1%	12.4%	12.4%	10.4%	10.8%	10.1%	
Valuation								
PE-ratio	14.24	13.04	11.68	10.65	11.75	10.52	10.45	
Price/BVpS	1.65	1.51	1.38	1.26	1.18	1.10	1.03	
Dividend yield in %	2.3%	2.5%	2.7%	2.9%	3.0%	3.1%	3.2%	
Market Cap/Sales	8.46	8.05	7.75	7.40	7.08	6.81	6.48	
Market Cap/EBITDA	8.50	8.20	7.71	7.22	7.89	7.18	7.16	
Data per share								
Number of shares in k	27,580	27,580	27,580	27,580	27,580	27,580	27,580	
EpS	1.71	1.87	2.09	2.29	2.08	2.32	2.34	
DpS	0.55	0.60	0.65	0.70	0.72	0.75	0.78	
BVpS	14.82	16.15	17.65	19.31	20.67	22.24	23.80	

SRC Research

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Company	Date	Rating	Former Share Price	Former Target
VIB Vermögen	14 May 2020	Buy	24.40 €	29.00 €
VIB Vermögen	22 Apr 2020	Buy	24.40 €	29.00 €
VIB Vermögen	25 Mar 2020	Buy	22.60 €	29.00 €
VIB Vermögen	06 Nov 2019	Hold	28.25 €	29.00 €
VIB Vermögen	07 Aug 2019	Hold	25.40 €	28.00 €
VIB Vermögen	02 Jul 2019	Accumulate	25.40 €	27.00 €
VIB Vermögen	15 May 2019	Hold	24.90 €	26.00 €
VIB Vermögen	02 May 2019	Hold	25.20 €	26.00 €
VIB Vermögen	27 Mar 2019	Accumulate	24.00 €	26.00 €
VIB Vermögen	05 Feb 2019	Accumulate	22.50 €	25.00 €

Please note:

The share price mentioned in this report is from 6 August 2020. VIB Vermögen AG mandated SRC Research for covering the VIB share.

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